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SUBJECT: SOLOMON ISLANDS FEELING THE ECONOMIC CRISIS

CLASSIFIED BY: Leslie V. Rowe, Ambassador, U.S. Embassy Port Moresby, U.S. Department of State.

REASON: 1.4 (b), (d)

¶1. (C) SUMMARY: Solomon Islands (SI) is beginning to feel the effects of the current global economic crisis. Donors view the situation as serious. SI leaders are looking for options to replace logging revenues that are quickly disappearing due to a drop in demand caused by the current economic crisis and diminishing forests. The situation on the ground does not lend itself to relieving tensions that still remain and SI is still a long way from full national reconciliation. However, the Regional Assistance Mission to Solomon Islands (RAMSI) is keeping the country stable and is strongly supported by the current government. National elections are coming up in 2010 with a clear possibility that Prime Minister Sikua may not run for Prime Minister again. END SUMMARY.

¶2. (U) Ambassador Rowe, DATT, and POLOFF visited Solomon Islands February 23-26 and met with a number of officials including Prime Minister Derek Sikua, Foreign Minister William Haomae, Leader of the Opposition Manasseh Sogavare, Health Minister Johnson Koli, Minister of Environment Gordon Darcy Lilo and key members of the donor community. They discussed a wide variety of topics including the impact of the international economic crisis in SI, the situation in Fiji, RAMSI, the recent flood disaster, U.S. assistance programs to SI, and the upcoming 2010 elections.

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FIJI  
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¶3. (C) Both Prime Minister Sikua and Foreign Minister Haomae were pleased with the united outcome of the January Pacific Island Forum (PIF) meeting in Port Moresby although disappointed that Bainimarama was not present. According to Sikua, Australian Prime Minister Rudd had pushed to immediately suspend Fiji from the Forum, but he and other leaders pushed back to give Bainimarama more time to respond on moving forward with democratic elections. Sikua met with Papua New Guinea PM Somare and Vanuatu PM Natapei prior to the Forum meeting to discuss options.

¶4. (C) Sikua could not predict how Bainimarama will eventually act, saying "I have a feeling he wants to talk to see if he can wiggle his way out - but none of them [the Pacific Island leaders] are talking to him at the moment." The Melanesian Spearhead Group (MSG) may meet with Bainimarama in April. The MSG countries want to give him time, but if Bainimarama does not want to abide by the Forum decision then the MSG will look at other options. Bainimarama will need to go to Australia to explain his position at the next Forum meeting in August. In a separate meeting, Foreign Minister Haomae stated that Bainimarama is trying to divide the Forum - Australia and New Zealand against the Pacific Island countries - but the Forum is united.

**15. (C)** Pacific Island leaders feel it is very important that Bainimarama attend the next meeting and present his case to the other leaders. According to Sikua, "We'll listen to him, but he has to turn up. Everyone is willing to assist him in getting on with reforms and election registration. We will plead with him to adhere to the Forum decision. Everyone is getting tired of the Fiji situation, we have other problems to look at. We [the Pacific Island leaders] are all thinking about what is the best exit strategy for him [Bainimarama]. The more he disappoints the Forum, the less likely we are to be concerned about that." Sikua suggested that there may be some options for Bainimarama in the Forum itself, but they would "have to see."

**16. (C)** In another meeting, Opposition Leader Manasseh Sogavare told the Ambassador that the Forum is punishing Bainimarama and the people of Fiji. He said that Forum leaders did not ask Bainimarama the right questions nor show him respect. Sogavare does not believe that Bainimarama will go to Cairns for the next Forum meeting. He stated that a small group (such as the MSG) using the "Pacific approach" should meet with Bainimarama to discuss the situation. The MSG needs to meet with him to address the issues one by one. Sogavare stated that the Forum went straight to the ideal and jumped too quickly. "Putting sanctions on Fiji is the last thing that should have been done." Additionally, Sogavare stated he did not think the United Nations or Commonwealth efforts would be useful because "they are not asking the right questions or doing the right thing."

**17. (C)** Sogavare stated that the Forum is very complicated and that while the members respect that is important to return Fiji to democracy one day, the issue must be addressed very sensitively. One way to address the situation is to ask the people of Fiji what they think and what they want. According to Sogavare, Bainimarama is a proponent of Fiji for all Fijians, unlike previous coup leaders. Sogavare told the Ambassador there is a large population of Solomon Islanders in Fiji who were living in swamps and treated as "less than third class citizens" by previous leaders. Bainimarama recognizes the Solomon Islanders in Fiji and respects their human rights. However, he will not be in power forever. This would be unacceptable of the long term to Solomon Islands and other Pacific Island countries.

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ECONOMIC CRISIS  
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**18. (U)** The current economic crisis is beginning to impact Solomon Islands. According to the SI Chamber of Commerce, in 2008 logging accounted for 60% of SI exports but demand from China and other countries has dropped dramatically over the last year. According to FM Haomae, the impact is greatest in the urban areas. The effects of the crisis have yet to hit rural areas where 80-85% of the population lives on subsistence farming and fishing.

**19. (SBU)** The SIG is looking at reprioritizing and reducing expenditures. Minister for Environment Lilo stated that "the crisis is an opportunity to change the future economic direction of this country." Alternative revenue resources are fisheries, gold mining (would take at least 10 years to re-open production), eco-tourism (lacking solid infrastructure), and the development of new industries such as copra and the export of coconut oil. However, all of these measures require long-term planning and investment. In the short-term there are few viable options to make up for lack of logging revenues that are projected to ease and eventually disappear over the next five years.

**10. (SBU)** The International Monetary Fund is currently in SI to advise the SI government which reportedly has just over two months of foreign exchange reserves available. One diplomatic contact noted that with 2010 elections approaching, parliamentarians will soon be seeking funding from the government to campaign. It will be difficult for the SIG to hold money back even if there are cash flow problems.

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DISASTER UPDATE

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¶11. (SBU) The emergency phase of the recent flooding disaster is over and SI is currently conducting assessments for long term rehabilitation of the affected areas. Northeast Guadalcanal and southern Malaita were hardest hit and 2,5000 - 3,000 people remain homeless. Ten people died, and ten remain missing. PM Sikua thanked the Ambassador for the USD\$50,000 in disaster assistance provided to Solomon Islands through the SI Red Cross.

Sikua and numerous other officials said that the flooding was in fact caused by left over debris from logging. Logs were washed down rivers during the heavy rains which caused dams to be formed. When the dams broke, flash flooding occurred further downstream. Logging companies have not commented on this speculation or contributed to any disaster assistance. Minister for Environment Lilo (who has logging interests) claimed that the disaster was due to record rains and climate change rather than logging.

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RAMSI  
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¶12. (SBU) Australian diplomat Graham Wilson, who arrived in January, is the new head of RAMSI. RAMSI continues to enjoy strong support from the SI government and people of Solomon Islands. The SIG is pushing RAMSI to provide assistance in rural development but this goes beyond RAMSI's mandate and would duplicate efforts by other donors. RAMSI's current priorities are strengthening the machinery of government, law and justice, and the economy.

¶13. (C) One key diplomatic contact told the Ambassador that if RAMSI left "It would take about a week for trouble to break out since none of the underlying issues (which caused the 2001 ethnic violence) have been addressed." There are still people out in communities who have not been brought to justice for atrocities committed during the ethnic conflict. These incidents and the economic tensions (i.e. Malaitans not being allowed to work on Guadalcanal and Western Province for the large employers) continue to fester. Additionally, there are increased numbers of Malaitans in Guadalcanal settlements who cannot return to their villages because they no longer have rural skills (gardening, etc). Malaita has twice the population of Guadalcanal (the second biggest province) and there are problems on Malaita with land owner issues that are preventing industry and donors from investing and creating opportunities on Malaita. On February 27, the SIG held a ceremony to launch a new oil palm plantation after resolving years of disputes with landowners. If successful, the plantation could generate several thousand jobs for Malaitans and would be a huge step toward relieving ethnic tensions.

¶14. (SBU) There have been some reconciliations along the Guadalcanal coast and some on Malaita, but no provincial reconciliations. SI is still a long way from national reconciliation, but continues to make progress. Bishop Tutu is reportedly scheduled to visit SI April 27-29 to share his experience on the reconciliation process.

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PACIFIC PARTNERSHIP  
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¶15. (U) Pacific Partnership 2009, a Navy humanitarian assistance mission, will visit Solomon Islands in early August 2009. A pre-deployment site survey team met with officials and donors to coordinate the mission and ensure that donor efforts are not duplicated. The mission is slated to visit the islands of Guadalcanal, Malaita, and possibly Makira to provide medical, dental, and veterinary community assistance programs. In addition to locating sites for these programs, the team is also identifying small engineering assistance projects that could be completed during a two-week timeframe.

¶16. (U) The news of the Pacific Partnership 2009 mission was welcomed by all. PM Sikua stated there will not be a shortage

of people coming forward for medical assistance, and asked for as much publicity as possible to raise awareness and to give people time to prepare for the visit. FM Haomae assured the Ambassador that SI would make certain the visit is successful.

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CORAL TRIANGLE INITIATIVE  
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¶17. (U) The Coral Triangle Initiative (CTI), a \$40-million USAID regional program focused on preserving coral reefs, fisheries, and food security, will hold its third meeting in Papua New Guinea in March. Minister for Environment Lilo will be leading the SI delegation to the Ministerial in Port Moresby. He stated that Solomon Islands is an active participant and that CTI comes at the right time. Solomon Islands is phasing out unsustainable development and must involve the people to change from income to livelihood and sustainable development. He is looking at CTI as an opportunity to generate interest in SI communities. Lilo said SI declared parts of Western Province marine protected areas last year. Currently less than 1% of SI waters are marine protected areas.

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2010 ELECTIONS  
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¶18. (C) The next SI national elections will be held in April/May 2010. In past SI elections, only 50% of the MPs have been re-elected. Several of our contacts speculated that PM Sikua will not run again for Prime Minister. Sikua was a compromise candidate after former PM Sogavare fell in the December 2007 vote of no-confidence. Sikua is smart and wants to move the country forward, but appears to have little "fire in the belly" to tackle the imminent economic problems Solomon Islands will face in the next few years. Although drunk driving charges against him were dropped in a recent court hearing, Sikua also continues to have problems with alcohol, and being Prime Minister undoubtedly adds to his stress. Other leading contenders are Deputy Prime Minister Fred Fono, Minister of Planning Steve Abana, Minister of Education Matthew Wale, and Minister of Environment Gordon Darcy Lilo.

¶19. (C) Waiting in the wings is Opposition leader Manassah Sogavare, who is in the process of reinventing himself, professing to RAMSI officials and other diplomats that he was "poorly advised in the past." In a meeting with the Ambassador, he sounded remarkably like the old Sogavare, particularly in his opinions on RAMSI and the need for Solomon Islands to maintain its sovereignty. Sogavare acknowledged that RAMSI is playing a crucial role in maintaining the security and stability of the country. In the long run, SI must move toward building its capacity to govern itself and develop its economy and foreign investments. Reiterating a long-standing conflict with RAMSI,

Sogavare said that immunity for RAMSI officials must be removed.

¶20. (C) COMMENT: The economic crisis is at the forefront of everyone's mind in SI, and concerns range from the impact on daily life to potential security situations. RAMSI maintains stability and SI continues to look for opportunities for foreign investment. PM Sikua will probably not return in the next national election, and contenders are already gearing up for campaigning. While SI is stable now, it remains fragile. The upcoming change in leadership and downturn in the economy portend an uncertain future for the country. END COMMENT.

ROWE